

THE JACOBS REPORT

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GOVERNOR REACHES OUT TO SMALL BUSINESS

Granholtm Unveils Proposal to Restructure Business Taxes

This week, Governor Jennifer M. Granholtm introduced her administration's plan to make business taxes in Michigan more attractive for job providers. The Michigan Jobs & Investment Act will broadly restructure business taxes in Michigan, cutting the existing Single Business Tax rate by 37 percent for those businesses that pay it.

Under the plan, three out of every four businesses that pay the SBT will see a reduction in their tax rate. Granholtm's proposed changes will help ensure that existing major employers continue to keep jobs in Michigan, will help small businesses grow, and will encourage research and development companies to create new high-growth jobs in this state.

"Job growth, coupled with a great quality of life, will make Michigan a magnet for jobs, investment, growth, people and opportunity," said Granholtm. "This proposal helps Michigan retain jobs, attract the jobs of the future, and protect schools and health care for our citizens. The changes we're introducing today make Michigan's business tax structure simpler, fairer, and more attractive for the job providers we want to stay and grow in Michigan."

The Michigan Jobs & Investment Act would:

- cut the Single Business Tax rate 37 percent;
- give small businesses a 40 percent rate cut;
- create a 35 percent refundable personal property tax credit for manufacturing and research and development property;
- establish a tax credit that will encourage research and development companies to grow.

"Small businesses create jobs from Main Street to Automation Alley," Granholtm said. "This proposal slashes state business taxes for our entrepreneurs and store owners, providing a savings that they can invest in their businesses to grow more jobs here."

Granholtm said because the proposal is revenue neutral, it will not reduce revenue that, in turn, would produce harmful budget cuts to Michigan's schools, health care programs, and local units of government.

“Our employers and our families want the same things – good schools, affordable health care, public safety, and a strong business climate,” Granholm said. “In the New Economy, a competitive business climate and a great place to live and raise a family go hand-in-glove.”

The proposal will increase the profit component of the tax base for corporations and bring taxes on insurance companies in line with the national average. By eliminating tax breaks and credits, placing a greater emphasis on profits, and reforming insurance taxes, the revised SBT would generate enough revenue to cut the overall tax rate.

A two percent tax on insurance premiums would be applied to insurance companies, bringing taxation on Michigan’s insurance industry in line with the national average. However, the plan would not apply to Blue Cross Blue Shield of Michigan, health maintenance organizations, or self-insurance plans. Also, out-of-state businesses will likely see a tax increase under the plan.

“This is the most significant restructuring of business taxes since the SBT was created more than 30 years ago,” said Granholm. “This proposal will create jobs, simplify our tax system in a fiscally responsible way, and provide broad-based tax relief to most of our job providers.”

If approved by the Legislature, the plan would go into effect for tax years starting on or after January 1, 2006.

For more information on the proposal, please see:

[http://www.michigan.gov/documents/FAQs - Tax Restructuring 1-27-05 114802 7.pdf](http://www.michigan.gov/documents/FAQs_-_Tax_Restructuring_1-27-05_114802_7.pdf),
and:

[http://www.michigan.gov/documents/White Paper - Business Tax Restructuring 1-27-05 114800 7.pdf](http://www.michigan.gov/documents/White_Paper_-_Business_Tax_Restructuring_1-27-05_114800_7.pdf)

REACTION TO THE GRANHOLM PLAN

According to MIRS Capitol Newsletter, at least one long-time, non-partisan observer of the Capitol concedes that Governor Jennifer Granholm “probably hit this one out of the park.” The question is, can the administration round the bases by convincing her teammates in the Legislature to swallow a tax hike on the insurance industry while giving a significant boost to the manufacturing sector?

“They’re not tinkering around the edges,” one source said. “This is a bold step.”

Barry Cargill, lobbyist for the Small Business Association of Michigan, said his organization is “pleasantly surprised” by the proposal. “We think they have embraced a number of principles that have concerned small businesses,” Mr. Cargill said.

David Cole, chair of the Center for Automotive Research, said his organization is “delighted” with the proposed restructuring. He added that the plan is “significant restructuring of Michigan’s SBT that is fully consistent with the massive changes that are occurring in the business model of Michigan’s manufacturing sector including the automotive industry.”

“In effect this is a new pattern for tax policy that is consistent with being a full partner with the auto industry as it shifts to a new business model that emphasizes competition on a global basis,” Cole said.

“It’s a very significant, quick relief that manufacturers need to get, but we also believe when you take a look at the numbers that it’s going to provide relief to 77 percent of taxpayers. That’s a pretty good number,” said John MacIlroy, president of the Michigan Manufacturers Association.

MacIlroy said MMA and other business groups that are in favor of the proposal would be developing a coalition to include their members and small businesses that favor the Granholm plan.

“We are very pleased with what we see, and I think many, many other businesses, not just manufacturers are going to see the utility of this reform,” MacIlroy said.

The proposal will likely result in a tax increase for financial services companies and insurance companies—a point that will generate debate from some in the Legislature. Reportedly, in-state insurance companies rank 48th in the country for the state tax they pay. This proposal would push them up around average. Under the SBT, insurance companies and financial services companies have their liability determined by using a multiplier times adjusted receipts. It would be easy to raise that tax by simply increasing the size of the multiplier.

The insurance industry is already threatening to pass on any additional costs to consumers.

“Michigan insurance companies have not passed along their past tax savings in the form of lower insurance rates for Michigan consumers,” said state Senator Gilda Z. Jacobs (D-Huntington Woods). In fact, out-of-state companies currently pay higher tax rates, yet they continue to offer competitive rates with those Michigan companies who pay significantly less. Let’s make sure they their fair share and let the market determine the rest. Insurers who want to compete in the future will keep rates competitive or risk losing customers.

STATE DEMOCRATS MOVE TO BOOST MINIMUM WAGE

This week, Democrats in the House and Senate today proposed raising the state’s minimum wage to \$7.15 per hour in an effort they called “long overdue for Michigan’s working families,” and a move certain to boost the economy.

“It is a matter of fundamental fairness, good public policy and common-sense economics to set a minimum wage that provides people who work hard the opportunity to earn a decent living,” House Democratic Leader Dianne Byrum said. “We can’t wait for Washington. We need to do the right thing in Michigan for working families.”

Byrum added, “Michigan workers built our state. We need to stand up for them by demanding a fair wage for a hard day’s work so that they can support their families.”

Raising the minimum wage by two dollars per hour would directly benefit at least 464,000 Michigan workers or nearly 1 in 6 hourly workers statewide, according to the U.S. Bureau of Labor Statistics' monthly magazine. In addition, evidence indicates that there would be a ripple effect that would lead to better wages for significantly more workers.

Since 1968, inflation has significantly eroded the value of the dollar and the purchasing power of those earning the federal minimum wage, according to independent economic reports. In fact, economists estimate that the buying power of the minimum wage has plummeted more than 40 percent in the past 36 years.

Meanwhile, the federal government hasn’t raised the minimum wage in eight years.

Fifteen states already have established a minimum wage higher than the federal level, including Illinois, Florida, New York and Maine. Increasing the minimum wage is overwhelmingly supported by voters. In

November, Floridians passed a constitutional amendment to raise the minimum wage and index it to inflation. It passed with 71 percent support.

It also has wide bipartisan support. In New York, the Republican-controlled State Senate overrode Republican Gov. George Pataki's veto of a minimum wage increase by a 51-8 vote and the Republican Leader led the fight.

“In today’s market, hard-working men and women in our state are struggling to make ends meet because their earnings have failed to keep up with inflation,” Senate Democratic Leader Bob Emerson said. “A higher minimum wage will not only benefit Michigan's workers and families but it will strengthen our state’s economy.”

Emerson and Byrum pledged to continue to work with the Governor's office, organized labor, the business community and others to ensure Michigan’s minimum wage serves as a reasonable threshold for workers and employers to sustain a vibrant economy.

All Michigan legislation can be tracked at <http://www.legislature.michigan.gov/> .

State Senator Gilda Jacobs represents the 14th Senate District, which includes Beverly Hills, Bingham Farms, Farmington, Farmington Hills, Ferndale, Franklin, Hazel Park, Huntington Woods, Lathrup Village, Oak Park, Pleasant Ridge, Royal Oak Township, Southfield, and Southfield Township. She is the Minority Vice Chair of the Families & Human Services Committee and the Economic Development, Small Business & Regulatory Reform Committee. She also serves on the Government Operations and Health Policy Committees.

Constituents of the 14th District may contact Senator Jacobs at sengjacobs@senate.michigan.gov or toll-free at 1-888-937-4453.

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